
FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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COMMISSION ORDERS POTENTIAL REFUNDS FOR CALIFORNIA ELECTRIC POWER SALES, COMMENT SOUGHT ON LONG-TERM PRICE MITIGATION

The Federal Energy Regulatory Commission today moved aggressively to ensure just and reasonable rates for wholesale power sales in California by putting 13 California power sellers on notice that they must either make refunds for certain power sales or provide further justification of their prices. Total potential refunds or offsets in the ISO and PX markets are approximately \$69 million for January 2001 transactions.

Chairman Curt L. Hébert, Jr. commented, " Today's refund order demonstrates the Commission's commitment to ensure appropriate and reasonable prices in the wholesale electricity market given the supply and demand imbalance in California. My hope is that starting May 1, the Commission will have a market monitoring program in place so that we do not have to order after-the-fact refunds."

In reviewing generators' weekly transactions reports for January as well as monthly reports submitted by the California Independent System Operator (ISO) and Power Exchange (PX) the Commission determined that certain transactions appear unjust and unreasonable and either refunds must be made or sellers must justify their prices. Transactions for February are under review.

The weekly and monthly transactions reports are the result of a December 15, 2000, order in which the Commission adopted specific short- and long-term remedies to remedy the dysfunctional California bulk power markets, provide incentives for sorely

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needed infrastructure in California, and ensure just and reasonable wholesale rates. Starting January 1, 2001, the Commission established a \$150 per megawatt (MW) breakpoint mechanism to ensure just and reasonable rates. Public utility sellers that bid above this breakpoint are subject to weekly reporting and monitoring requirements.

To evaluate the justness and reasonableness of the bid prices, the Commission has established a price screen or proxy market clearing price that will be applied to transactions that took place during Stage 3 conditions. The potential for market power is most likely to occur during Stage 3 emergencies, the Commission said. A Stage 3 emergency is called by the California ISO when operating reserves are at or below 1.5 percent, leading to a severe imbalance in supply and demand.

The proxy price is based on a hypothetical combustion turbine, which would be the marginal unit dispatched under Stage 3 emergencies, and would therefore set the market clearing price under conditions of tight supply. This hypothetical unit is based on the weighted-average of nine gas turbines, as reported in the 1998 FERC Form 1 for each of California's investor-owned utilities—Southern California Edison, Pacific Gas & Electric Company and San Diego Gas and Electric Company. The resulting proxy price should provide incentives for new, lower cost generation to enter the California market.

Based on criteria that includes average natural gas prices, average NOx allowance costs and variable operation and maintenance costs, the Commission determined that \$273 per megawatt-hour would be the proxy clearing price for January. The Commission will determine a proxy clearing price for each month through April 2001.

Public utility sellers with transactions above this proxy clearing price during Stage 3 emergencies must notify the Commission on or before March 23, 2001 that they will either: (1) refund the excessive amounts or offset such amounts against any amounts due or owed to them by their purchases during January 2001, or (2) supply further data to justify transactions made above the proxy clearing price.

The Commission today also released for comment a staff report on proposed long-term mitigation measures to replace the \$150 breakpoint mechanism.

This report follows a January staff technical conference that discussed long term monitoring measures. The Commission expects that a replacement market monitoring plan will be put into place by May 1, 2001.

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Comments on the report should be filed by March 22, 2001. Comments should be sent to the Office of the Secretary, Federal Energy Regulatory Commission, 888 First Street N.E., Washington, DC 20426.

Today's order and staff report on market monitoring are available on the Commission's website at www.ferc.fed.us under Bulk Power Markets.

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